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C O N F I D E N T I A L CARACAS 001548

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TAGS: [ECON](#) [EFIN](#) [PGOV](#) [VE](#)

SUBJECT: FOREIGN EXCHANGE AGENCY: DESPITE CORRUPTION AND A
BOMB, IS IT BETTER THAN EVER?

REF: A. A) 03 CARACAS 2744

[1](#)B. B) CARACAS 1515

Classified By: AMBASSADOR CHARLES S. SHAPIRO FOR REASON 1.5 (D)

SUMMARY

[1](#)1. (SBU) Amid considerable press attention on reports of corruption at CADIVI (the Commission for Administration of Foreign Exchange) which has led to the dismissal of 50 employees, a pamphlet bomb exploded at their main office in the early morning hours of April 29. CADIVI's President is more concerned with corruption in the private sector, and has revived calls for a law to punish both those who try to cheat CADIVI and those who conduct parallel market transactions. FinMin Nobrega has made statements which indicate that CADIVI is working better than ever, but the facts indicate that liquidation of dollars is just as slow as it has been. END SUMMARY.

AN EXPLOSIVE ACCUSATION

[1](#)2. (C) While there have been prior reports of corruption in CADIVI, it was not until rumors reported in the local press named one of the directors, Adina Bastidas, as a leader of the internal "Mafia" that such claims were addressed publicly by the institution. Bastidas denied such claims, instead stating that 50 employees (11% of the workforce) have been dismissed since the inception of the agency for "not working ethically." The firings appear to have taken place two to three weeks earlier. CADIVI workers have been accused of charging a "commission" from 200-400 Bolivares per dollar exchanged, up to 40% of the difference between the official exchange rate and that attainable on the black market.

THERE OUGHTTA BE A LAW

[1](#)3. (C) CADIVI President Edgar Hernandez Behrens has sought to move the issue of corruption at CADIVI in a different direction. He has made a series of public statements, not about corruption by employees, but instead about the absence of a law punishing those who go into the parallel market, stating "that there is not a law to punish those who violate the norms that regulate the application for and acquisition of foreign exchange." He also denounced under-declarations of exports, over-declaration of and outright falsification of imports, as well as the presentation of other false documents in order to obtain approval. Together, in his perspective, these acts "constitute an imperative and undeferrable requirement for the health of the foreign exchange policy of the country." He stated that the purpose of this law is to "punish those who harm the general interests of the Venezuelan society." Ricardo Sanguino, a pro-Chavez Diputado and member of the National Assembly Finance Committee, has promised that such a law will be completed by the end of May. COMMENT: The parallel market is deeply entrenched and is implicit in the structure of the GOV's financial management. If a law imposing penalties for parallel transactions were passed, enforcement would likely be sporadic, discretionary and work as a means to intimidate political enemies. It is not clear whether the GOV will make this a legislative priority. END COMMENT.

A REAL EXPLOSION

[1](#)4. (U) At about 3:30 AM on April 29, a bomb exploded outside of the CADIVI office. No one was hurt, and press reports indicate it was a pamphlet bomb. The pamphlet was attributed to Grupo Carapaica (ref B), a violent Marxist group which claims no ties to Chavistas, but says it supports Chavez'

programs. According to a CADIVI press release, the pamphlet demanded the departure of corrupt officials from CADIVI, naming three of the five directors (including Hernandez but not Bastidas).

CADIVI IS IMPROVING...ISN'T IT?

15. (SBU) FinMin Nobrega has attempted to put a positive spin on CADIVI's efforts, stating that "never before, in any quarter, has (CADIVI) liquidated more dollars than in the first quarter of 2004." While this may be technically true (see ref A and previous), it appears that the increased liquidations are merely keeping pace with the demand, as the economy, benefiting from high oil prices and increased government spending, recovers. Statistics provided to econoff by the Venezuelan-American Chamber of Commerce show that 44% of all forex requested of CADIVI by Feb. 20, 2004, was actually liquidated by the Central Bank (BCV). Daily "El Universal" reports that the amount of forex liquidated from Jan. 1, 2004, to Apr. 20, 2004, was also 44% of the amount requested. NOTE: Such statistics were available on the CADIVI website (www.cadivi.gov.ve) until February 20, but have since been removed. It is not clear how "El Universal" obtained their data, but the results now appear available only to those who can crunch the massive amounts of raw data that CADIVI still provides.

WHY THE DISCREPANCY?

16. (SBU) Nobrega has claimed that the reason more money has not been liquidated is that importers' requests were approved, but they have not had the merchandise shipped. A BCV employee confirmed to econoff that this is indeed one of the reasons for lack of money. Exporters are loath to ship goods without a reasonable assurance that funds will be forthcoming. Accordingly, many goods are not shipped until approval is obtained, delaying the final liquidation. Another reason is that importers get approvals for a specific amount of exchange. If the amount of the order changes for any reason, it cannot be liquidated until a new approval is obtained for the correct amount. It has also been suggested by our business contacts that in their thirst for cheap CADIVI dollars, many applicants applied for more dollars than they ultimately were able to find enough Bolivars to buy. Hence, their final order cannot be liquidated "on time" by CADIVI.

COMMENT

17. (C) We see no sign that the GOV will eliminate exchange controls. Chavez's continued interest in accessing Central Bank "excess reserves" (which would all but melt away in an open exchange market) implies their indefinite continuation. We expect the corruption issue to be equally long-lived. It appears that CADIVI was going to keep the dismissals quiet, until the accusation against Bastidas became public and the need arose to go on the offensive. Considering the wait, the fact may have been reserved for just such a time. Since its inception, CADIVI has been plagued by complaints of corruption, and a whole industry of dubious "fixers" and law firms have sprung up to meet the demand of the new bureaucracy. Some are simply undertaking the onerous paperwork that small firms not connected with strategic industries such as food and pharmaceuticals (which get their foreign exchange more regularly) cannot manage. Nevertheless, others are clearly making payoffs to get CADIVI dollars.

18. (C) That said, at least one veteran government relations expert for a U.S. firm told us that CADIVI's corruption level remains well below that of previous exchange control systems which eventually stopped being a meaningful check on the validity of foreign exchange transactions. He suggested that, for now at least, the desire for control by Chavez has kept corruption in check and that the dismissals reflect this effort. In our own conversations with Bastidas, we have found her superficially courteous but very rigid on substance. As Chavez's Executive Vice President and later Minister of Production and Commerce, she had a reputation as a hard leftist. While some bribes are being taken, CADIVI is

first and foremost a tool of the Revolution.
SHAPIRO

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